

Message from the Secretary of Administration and Finance

On behalf of the Patrick-Murray Administration, I am pleased to present this budget recommendation for Fiscal Year 2009. This is a balanced and fiscally responsible plan that addresses financial challenges while making targeted investments in education, public safety, job creation, and partnership with our cities and towns. These modest budget expansions reflect priorities of Governor Patrick and Lieutenant Governor Murray and the belief that even in challenging times – or perhaps better said: *especially* in challenging times – the cost of inaction is greater than the cost of taking action.

My optimism is mixed with caution, however, since we face almost exactly the same fiscal landscape that confronted us when we arrived as a brand new administration just over one year ago. Our proposals have been made in the context of a challenging fiscal situation resulting from a persistent structural budget gap, a mismatch between available resources and the costs of the Commonwealth's obligations and priorities. In Governor Patrick's first budget last year, we proposed a number of initiatives that would have greatly reduced or even closed the gap. While we had a number of important successes in that first budget process, the gap was not closed in the budget eventually signed into law, and in fact it was made worse, with an increased reliance on non-recurring revenues.

The current situation should not be seen as a fiscal crisis. In contrast to the state's condition in 2002-2003, revenues are projected to grow in the next year, albeit modestly. The outlook does not call for drastic measures, but rather for a concerted and balanced effort to bring revenues and costs more in line with each other. An obvious target for focused cost containment efforts is the huge and growing portion of the budget dedicated to health care programs, now comprising 45% of total spending. As the chair of the Connector Authority responsible for implementing major parts of the state's landmark health care reform, I am at the same time inspired by the opportunity to offer quality, affordable health care to the state's citizens and employees and sobered by the challenges inherent in doing so within a sustainable financial context. There is a growing recognition among all the stakeholders that the time to tackle this problem is now. Our budget makes some important steps in this direction, but we recognize much more work is needed and will commit our energies to this issue over the coming year.

The first approach to shrinking the structural gap should be cost containment and efficiencies, and therefore our budget contains hundreds of millions of dollars in savings from these steps. At the same time, certain revenue enhancements are critical to help close the structural deficit and avoid the need for excessive use of one-time sources. Accordingly, our budget contains a number of measured and fair revenue proposals, including enhanced enforcement of existing taxes, the elimination of two specific tax breaks of long standing, and the recommendations of the Study Commission on Corporate Taxation. Additionally, to preserve and protect local government stability, we are proposing to use gaming license revenue from the Governor's proposal on destination resort casinos to fill a significant shortfall in Lottery distributions. These measures will allow us to balance the budget without resorting to an excessive level of reserves. With economic uncertainty ahead, and some economists predicting a recession, it is critical to preserve as much of the state's rainy day fund as we can. To that end, while we are unable to reverse in one year the established pattern of reliance on one-timers, our budget

proposes and implements a standard for the responsible and measured use of stabilization funds in years of lower than average revenue growth.

While this budget situation presented challenges, it has been a pleasure to confront them with the help of my talented colleagues at the Executive Office of Administration and Finance. I could not be more proud of my entire team, all of whom have contributed to this budget and to all our accomplishments over our first year. Special mentions go out to Undersecretary Jay Gonzalez, Assistant Secretary for Budget Matt Gorzkowicz and his team of Fiscal Affairs Division staff, many of them joining us for their first budget. I would also like to acknowledge Commissioner of Revenue Henry Dormitzer who has been a wonderful partner in this first year, and his senior deputy Navjeet Bal who will shortly succeed Henry as commissioner. Many of the innovative approaches to this budget were contributed by Henry, Navjeet and their team at the Department of Revenue.

My appreciation, also, goes to the members of the Study Commission on Corporate Taxation, who worked through many commission and sub-committee meetings and delivered thoughtful and principled perspectives – whether assenting or dissenting -- on this important issue; and to Administration and Finance General Counsel David Sullivan who staffed the Commission.

I have been honored by the partnership and collegiality of Senator Steven Panagiotakos, Chair of the Senate Ways and Means Committee and Representative Robert DeLeo, Chair of the House Ways and Means Committee, and to their respective staffs. While these legislative leaders will undoubtedly take a different approach to elements of the budget, they have been unfailingly generous with their time and counsel.

Finally, I wish to express my team's appreciation for the guidance and personal involvement of Governor Patrick and Lt. Governor Murray as we developed this budget to address their vision for the Commonwealth and its citizens.

A handwritten signature in black ink, reading "Leslie A. Kirwan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Leslie A. Kirwan, Secretary